

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Shelby Benona Fire District	County Oceana
Fiscal Year End 12/31/06	Opinion Date February 8, 2008	Date Audit Report Submitted to State May 6, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☒ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe) Internal Control Letter	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Hendon & Slate, P.C.		Telephone Number 231-924-6890	
Street Address 711 West Main		City Fremont	State Zip MI 49412
Authorizing CPA Signature 	Printed Name Jodi DeKuiper, CPA		License Number 1101021180

**SHELBY BENONA FIRE DISTRICT
OCEANA COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

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Certified Public Accountants
Business Consultants

Shelby Benona Fire District
Shelby Michigan

Independent Auditor's Report

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Shelby Benona Fire District as of and for the year ended December 31, 2006, which collectively comprise a portion of the District's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in the government-wide financial statements for the District's governmental activities are not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Shelby Benona Fire District as of December 31, 2006 or the changes in its financial position or its cash flows, where applicable, for the year then ended.

The budgetary comparison information on page 9 is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hendon & Slate

Hendon & Slate, PC
Certified Public Accountants
February 8, 2008

Grand Rapids
4575 Lake Michigan Dr. NW
Grand Rapids, MI 49546
Phone (616) 453-8551
Fax (616) 453-9352

Muskegon
4985 South Harvey Street
Muskegon, MI 49444
Phone (231) 798-1040
Fax (231) 798-8409

Fremont
711 West Main Street
Fremont, MI 49412
Phone (231) 924-6890
Fax (231) 924-4088
Toll Free (800) 924-6891

Montague
4538 Dowling Street
Montague, MI 49437
Phone (231) 893-6772

Hart
1550 N. Industrial Park Drive
Hart, MI 49420
Phone (231) 873-5611
Fax (231) 873-7033

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SHELBY BENONA FIRE DISTRICT

Governmental Fund Balance Sheet December 31, 2006

	<u>General Fund</u>	<u>Equipment Fund</u>	<u>Total (Memorandum Only)</u>
ASSETS			
Cash and Cash Equivalents	\$ 45,848	\$ 147,713	\$ 193,561
Other Assets	<u>177</u>	<u>-</u>	<u>177</u>
Total Assets	<u>\$ 46,025</u>	<u>\$ 147,713</u>	<u>\$ 193,738</u>
LIABILITIES AND FUND EQUITY			
Liabilities			
Accrued Payroll Liabilites	\$ 2,824	\$ -	\$ 2,824
Accounts Payable	<u>12,166</u>	<u>-</u>	<u>12,166</u>
Total Liabilities	14,990	-	14,990
Fund Equity			
Fund Balance-Undesignated	<u>31,035</u>	<u>147,713</u>	<u>178,748</u>
Total Liabilities and Fund Equity	<u>\$ 46,025</u>	<u>\$ 147,713</u>	<u>\$ 193,738</u>

The Notes to the Financial Statements are an integral part of this statement.

SHELBY BENONA FIRE DISTRICT

Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance For the Year Ended December 31, 2006

	General Fund	Equipment Fund	Total (Memorandum Only)
Revenues			
Property Taxes	\$ 167,800	\$ -	\$ 167,800
Contributions from Other Local Units	4,243		4,243
Other Revenue	336	-	336
Interest	3,248	1,693	4,941
	<hr/>	<hr/>	<hr/>
Total Revenues	175,627	1,693	177,320
Expenditures			
Public Safety	101,335	-	101,335
Capital Outlay	13,000	-	13,000
Debt Service	45,162	-	45,162
	<hr/>	<hr/>	<hr/>
Total Expenditures	159,497	-	159,497
	<hr/>	<hr/>	<hr/>
Excess Revenues (Expenditures)	16,130	1,693	17,823
Other Financing Sources (Uses)			
Operating Transfers In		716	716
Operating Transfers Out	(716)	-	(716)
	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	(716)	716	-
Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses	15,414	2,409	17,823
Fund Balance - Beginning	15,621	145,304	160,925
	<hr/>	<hr/>	<hr/>
Fund Balance - Ending	<u>\$ 31,035</u>	<u>\$ 147,713</u>	<u>\$ 178,748</u>

The Notes to the Financial Statements are an integral part of this statement.

SHELBY BENONA FIRE DISTRICT

Notes to the Financial Statements

December 31, 2006

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity - The Shelby Benona Fire District was formed by agreement among the Villages of Shelby and New Era, and Shelby and Benona Township. The Shelby Benona Fire District was established to provide fire emergency services, and the equipment and personnel for fire protection, and funding in the geographic area of the townships and villages.

The District was formed under the powers of the townships and villages pursuant to the provisions of Act 57 of the Public acts of 1998.

The Shelby Benona Fire District is governed by a District Board whose members consist of representatives of the participating governmental entities.

2. Measurement Focus, Basis of Accounting and Financial Statement Presentation.
Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Contributions from local units and other revenue that are both measurable and available for use to finance operations and recorded as revenue when earned. Other revenue is recorded when received.

The government reports the following major governmental funds:

- a. The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
 - b. The Equipment Fund accounts for the acquisition of equipment which funds have been designated for that purpose by the District Board.
3. Assets, Liabilities, and Fund Balance
Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is generally allocated to each fund-based on the cash balance in each fund.

Notes to the Financial Statements (continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds". Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds".

Inventories and Prepaid Items - Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase. Normally expenditures are not divided between years by recording of prepaid expenses. There were no material inventories at year-end.

Fund Balance - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

4. Budgets and Budgetary Accounting. The General Fund and Equipment Fund are under formal budgetary control. The budget shown in the financial statements for these funds were prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consists only of those amounts contained in the formal budget approved and amended by the Board.

In the body of the financial statements, the District's actual expenditures and budgeted expenditures for the budgetary fund has been shown on a functional basis. The approved budgets for this budgetary fund was adopted at the line-item level.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year the following overexpenditures occurred.

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Professional Services	\$ 900	\$ 2,500	\$ (1,600)
Fuel-Heat	3,000	3,549	(549)
Telephone	600	660	(60)
Repairs and Maintenance	14,500	17,741	(3,241)
Dues and Subscriptions	250	352	(102)
Miscellaneous	850	8,064	(7,214)
Capital Outlay	6,500	12,166	(5,666)

5. Economic Dependency. Based on current fire protection agreements, the majority of the District's financing comes in the form of special assessments from two local units of government. The assessment is paid in the beginning of the fiscal year for the taxes billed by the governments in the previous fiscal year.

Notes to the Financial Statements (continued)

6. Encumbrance Accounting. The District does not use encumbrance accounting.
7. Estimates. Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenditures/expenses. Actual results could differ from those estimates.

NOTE B DEPOSITS AND INVESTMENTS

Legal Provisions for Deposits and Investments - The Investment of Surplus Funds of Political Subdivisions Act No. 20, Public Acts of 1943, as amended through December 31, 1997, state the District, by resolution may authorize the Treasurer to invest surplus finds in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2).
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptances of the United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 801-3 and 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
 1. The purchase of securities on a when-issued or delayed delivery basis.
 2. The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities
 3. The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperations Act of 1967, 1967 (Es Sess) PA7 MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus Funds investment Pool Act, 1982 PA 367, 129.111 to 129.118

Notes to the Financial Statements (continued)

- j. The investment pools organized under the Local government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

Investments are normally categorized to give an indication of the level of risk assumed by the District; however, money market funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the investment District noted above. Deposits are carried at cost. Cash deposits of the District are in one financial institution: Shelby State Bank. These accounts are in the District's own name.

The District's deposits are in accordance with statutory District as follows:

	Carrying Amount	Market Value
Checking-Regular	\$ (496)	\$ 1,157
Money Market	46,334	46,334
Equipment Fund-Money Market	147,713	147,713
Total	<u>\$ 193,551</u>	<u>\$ 195,204</u>
FDIC Insured		\$ 103,435
Uninsured		\$ 91,769

NOTE C CAPITAL ASSETS

Management has not presented government-wide financial statements, and thus, neither capital assets nor the related depreciation and accumulated depreciation are reported.

NOTE D RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets and omissions; and natural disasters for which the District carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

Notes to the Financial Statements (continued)

NOTE E CHANGES IN LONG-TERM DEBT

	Outstanding Principal <u>December 31, 2006</u>	Due Within <u>One Year</u>
<u>Fire Truck Loan</u>		
On December 5, 2002, the District entered into an agreement with Shelby State Bank to borrow \$219,267 for a fire truck built by Alexis Fire Equipment Company. The note is due in annual payments of \$40,888. Interest is calculated at 3.2% per annum.		
	<u>\$ 31,676</u>	<u>\$ 31,676</u>

The annual requirements to amortize long-term debt outstanding as of December 31, 2006, including interest are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 31,676	\$ 1,014
	<u>-</u>	<u>-</u>
Total	<u>\$ 31,676</u>	<u>\$ 1,014</u>

Changes in long-term debt for the year ended December 31, 2006

Debt Outstanding 1/1/06	\$ 69,072
Debt Added During the Year	-
Debt Retired During the Year	<u>(37,396)</u>
Debt Outstanding 12/31/06	<u>\$ 31,676</u>

SHELBY BENONA FIRE DISTRICT

Budgetary Comparison Schedule - General Fund For the Year Ended December 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Revenues				
Contributions from Local Units				
Benona Township	\$ 91,300	\$ 91,300	\$ 95,858	\$ 4,558
Shelby Township	68,400	68,400	71,812	3,412
Contributions from Local Units	-	-	1,242	1,242
Other Revenue	-	-	3,467	3,467
Interest Revenue	3,000	3,000	3,249	249
	<u>162,700</u>	<u>162,700</u>	<u>175,628</u>	<u>12,928</u>
Total Revenues	162,700	162,700	175,628	12,928
Expenditures - Public Safety				
Wages	41,250	41,250	38,922	2,328
Payroll Taxes	3,200	3,200	2,978	222
Professional Services	900	900	2,500	(1,600)
Supplies	7,500	7,500	3,585	3,915
Insurance and Bonds	25,000	25,000	22,420	2,580
Utilities				
Electricity	1,700	1,700	1,435	265
Fuel - Heat	3,000	3,000	3,549	(549)
Telephone	600	600	660	(60)
Repair and Maintenance	14,500	14,500	17,741	(3,241)
Dues and Subscriptions	250	250	352	(102)
Miscellaneous	850	850	8,064	(7,214)
Education and Training	2,500	2,500	1,776	724
Building and Grounds	6,000	6,000	2,366	3,634
Capital Outlay	6,500	6,500	12,166	(5,666)
Debt Service	47,950	47,950	40,984	6,966
Contingency	1,000	1,000	-	1,000
	<u>162,700</u>	<u>162,700</u>	<u>159,498</u>	<u>3,202</u>
Total Expenditures	162,700	162,700	159,498	3,202
Excess Revenues (Expenditures)	-	-	16,130	16,130
Other Financing Sources (Uses)				
Operating Transfers In	-	-	-	
Operating Transfers Out	-	-	(716)	(716)
	<u>-</u>	<u>-</u>	<u>(716)</u>	<u>(716)</u>
Total Other Financing Sources (Uses)	-	-	(716)	(716)
Excess Revenues and Other Sources Over Expenditures and Other (Uses)	<u>\$ -</u>	<u>\$ -</u>	15,414	<u>\$ 15,414</u>
Fund Balance - Beginning of Year			<u>15,621</u>	
Fund Balance - End of Year			<u>\$ 31,035</u>	

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Hendon & Slate, PC
Certified Public Accountants
Business Consultants

February 6, 2008

Shelby Benona Fire District
Oceana County, Michigan

Dear District Board Members:

We would like to thank you for the opportunity to provide our auditing services.

A recent change in auditing standards (*SAS112-Communicating Internal Control Related Matters Identified in an Audit*) now requires that we provide a new letter, which we have included, that focuses on the internal controls over financial reporting.

In addition to the letter referenced above, we also reviewed the District's accounting procedures as of and for the year ended December 31, 2006, and offer the following comments and recommendations:

Books and Records

We are pleased to note that in general your QuickBooks records were in good shape. We did note that some cash balances on your financial statements did not agree to reconciled balances, and we have recommended journal entries which were approved and entered by your bookkeeper to correct these balances.

We also noted that producing a Quick Books back up was difficult for you. We would suggest that a routine back up of your QuickBooks program be completed. This back up should be a physical back up separate from the computer's hard drive and which is taken off site for storage. This will ensure that a loss of information will be minimal in the event of computer problems. We would be happy to assist in the implementation of this recommendation.

Payroll

In tying out your payroll, we noted that the W-3 and the W-2's filed with the Social Security Administration and the quarterly 941's did not agree with the amount shown on your general ledger. Before the 2008 fourth quarter 941 is issued, you should reconcile your W-2's to your payroll reports and your general ledger to make sure they match.

Budget

We noted there were several journal entries made at year end to balance each account with the annual budget. For example non-payroll expenditures were reclassified to payroll to make the annual payroll expenditure match the budgeted balance, etc. Since these entries resulting in expenditures being misclassified, we recommended an entry to remove the entry. However, this resulted in the District having expended more than

Grand Rapids
4575 Lake Michigan Dr. NW
Grand Rapids, MI 49546
Phone (616) 453-8551
Fax (616) 453-9352

Muskegon
4985 South Harvey Street
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Phone (231) 798-1040
Fax (231) 798-8409

Fremont
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Montague
4538 Dowling Street
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Hart
1550 N. Industrial Park Drive
Hart, MI 49420
Phone (231) 873-5611
Fax (231) 873-7033

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the budgeted by line item again this year. The District should make sure to amend the budget for over or under expenditures before the year end, rather than reclassifying actual expenditures to other categories.

Uniform Chart of Accounts

We noted that you are not in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. The NEW Uniform Chart of Accounts was issued in April, 2002. Also the State issued updated versions of the Uniform Budgeting Manual, the Uniform Accounting Procedures Manual and the Bulletin for Audits of Local Units of Government (all issued in 2001). Contact our office for information on accessing these new publications.

GASB 34 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments

As you know, the District elected not to fully adopt GASB 34 financial statements. Our opinion on the audited financial statements has been modified to a disclaimer opinion indicating the District's financial statements are not reported in accordance with accounting principles generally accepted in the United States.

The State has allowed districts to only elect a partial adoption of the GASB 34 requirements, by not requiring the governmental-wide statements as well as the Management's Discussion and Analysis (MD&A) and certain infrastructure information. However the State does require the fund statements be presented in accordance with GASB 34 modifications, therefore certain changes were made to the financial statements to incorporate the modifications as required by GASB 34. The State has repealed this election for fiscal years ending after December 15, 2007; therefore, next year's financial statement must include full adoption of GASB 34 to comply with the State requirements. If the District wants to elect full implementation of GASB 34 in future years, the District's fixed assets would need to be accounted for at original or estimated original purchase price or fair market value on date of receipt if donated. In addition, these assets would need to be depreciated over the estimated expected life of the assets. The District would also have to draft a Management's Discussion and Analysis prepared by the District's management. This is included in the audited financial statement package. If the District would like to incorporate GASB 34, we would be glad to assist you in the future.

New Auditing Standards

During 2006 the American Institute of CPAs – the body that establishes standards for audits of nonpublic entities – passed a sweeping set of new standards that revise many fundamental auditing principles for audits of nonpublic entities. Though less in scope than the rules for public company audits, these new standards parallel many of the key themes of Sarbanes-Oxley, including new requirements that auditors:

- § Obtain a more robust understanding about their clients' operations, their business objectives and strategies, and their process for identifying and managing risks to achieving those objectives.
- § Gain a deeper understanding of their clients' internal controls.
- § Perform a more rigorous assessment of risks of material misstatement of the financial statements, whether due to error or fraud, with clearly documented linkage of the risks of material misstatement to the audit work performed.

The main objective of these new auditing standards is to strengthen and enhance the quality of the audit, an objective our firm fully supports. We also believe these standards will benefit all stakeholders in the financial reporting process, especially those who rely on your financial statements in making decisions about your company or organization.

Because these new standards demand a higher level of performance, there will be mandatory changes to the way we perform audits commencing in 2008, when the new standards go into effect. The new standards require us to perform more extensive procedures than in the past, resulting in an additional time commitment from both your employees and our audit personnel.

Our firm has devoted substantial internal and external resources to redesigning our audit process, including software that will support our new process. We also devoted significant resources to training all of our audit personnel so they are able to perform audits as effectively and efficiently as possible.

We are committed to working with each client to pave the way for a smooth transition to the new auditing standards. If you have any questions, please do not hesitate to contact me.

Thank you for the courtesy extended to us during our audit. If you have any questions regarding the audit report, this letter, or any other communication, please do not hesitate to call. We look forward to continuing to serve you.

Respectfully submitted,

A handwritten signature in black ink that reads "Jodi DeKuiper, CPA". The signature is written in a cursive, flowing style.

Jodi DeKuiper, CPA
Hendon & Slate, P.C.
Certified Public Accountants
Fremont Office

H&S Companies

Hendon & Slate, PC
Certified Public Accountants
Business Consultants

Board Members,
Shelby Benona Fire District
Oceana County,
Shelby, MI

In planning and performing our audit of the financial statements of Shelby Benona Fire District as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered Shelby Benona Fire District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of Shelby Benona Fire District's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

Anti-Fraud Program

The District has not adopted an Anti-Fraud Program (such as the attached standards of ethics and conduct) as required by SAS 99.

Cash

Internal control is most effective when the bank reconciliation is prepared by someone not responsible for entries in the receipts and disbursements records. In as much as this is difficult because of the size of the entity, we recommend a board member from time to time test the reconciliations. In addition, one member should review, approve, and sign the bank reconciliation each month.

Grand Rapids
4575 Lake Michigan Dr. NW
Grand Rapids, MI 49546
Phone (616) 453-8551
Fax (616) 453-9352

Muskegon
4985 South Harvey Street
Muskegon, MI 49444
Phone (231) 798-1040
Fax (231) 798-8409

Fremont
711 West Main Street
Fremont, MI 49412
Phone (231) 924-6890
Fax (231) 924-4088
Toll Free (800) 924-6891

Montague
4538 Dowling Street
Montague, MI 49437
Phone (231) 893-6772

Hart
1550 N. Industrial Park Drive
Hart, MI 49420
Phone (231) 873-5611
Fax (231) 873-7033

www.hscompanies.com

Controls over the Selection and Application of Accounting Principles that are in Conformity with Generally Accepted Accounting Principles

The District currently does not have personnel available with sufficient expertise to select and apply the accounting principles necessary to prepare the financial statements and note disclosures contained in the audit report.

Payroll

During our test of payroll, we noted that the general ledger accounts for gross payroll did not reconcile with the amounts reported to the Social Security Administration (SSA) for gross payroll. The amounts which were not reported to SSA were not gross payroll; therefore, should not have been included in the payroll general ledger account.

Controls over Journal Entries

The District did not maintain effective controls over the validity of general ledger journal entries. Specifically, the District has a general ledger system in which journal entries can be processed without approval. Additionally, reconciliations of the general ledger that would detect invalid journal entries were not operating effectively for certain general ledger accounts. This control deficiency resulted in adjustments, including audit adjustments to the financial statements. In addition, the control deficiency could result in a material misstatement to the financial statement that would not be prevented or detected.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

Controls over Financial Statement Preparation

Shelby Benona Fire District's internal controls would not prevent or detect a material misstatement in the financial statements.

Controls over Cash

The internal controls over cash would not prevent or detect a material error or omission in the cash account.

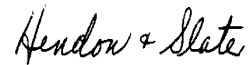
Controls over Journal Entries

The District's controls over journal entries entered into the books of original entry would not detect a material transaction which was incorrect.

Shelby Benona Fire District
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This communication is intended solely for the information and use of management, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Hendon & Slate".

Hendon & Slate, P.C.
February 2, 2008